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The Dominion-Provincial Conference

AN INTERIM REPORT



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FOREWORD

THE following articles dealing with the Dominion-provincial problem appeared on the editorial page of the Winnipeg Free Press over a period extending from January 4 to February 25, 1946.

As a closely knit account of the negotiations which began in August, 1945, and continued through two plenary sessions, in November, 1945, and January, 1946, and presently stand adjourned until April 25, the articles bear the disadvantage inescapable in all current journalism. Each one tends to be a statement of the case as it stood at a particular time: none is all embracing. Yet, taken as a whole, it is believed that the body of argument in support of a settlement will be found to be strong and consistent.

The articles have been gathered together in the hope that in pamphlet form they will assist the public to a clearer understanding of the issues involved.

CANADA'S FUTURE PROSPERITY

THERE is a surprisingly general tendency to appraise the current dominion-provincial negotiations as relating to an abstract constitutional question. Many seem to think that the matter under discussion is no more than another dominion-provincial deal.

So to think is wholly to misjudge the problem. It may seem an extravagant statement, and yet it is not greatly over-colored, to say that the future success of this country depends upon the outcome of the negotiations. Failure would be a disaster. A make-shift settlement would be about as satisfactory as hay wire repairs to a broken-down automobile. Success would clear the path ahead. It would not, of course, mean roses all the way. But it would mean that his country could face the future, and the problems which time will bring, with confidence.

The collapse of the under-pinning of our federal system in the early 1930's has never been repaired. The emergency which led to the Sirois commission inquiry deepened in the war; was met temporarily by wartime expedients; will become unbearable in post-war years unless adequately met. The Sirois commission was well aware of this: "If some adjustment of Canadian economic life appeared sufficiently urgent to lead to the appointment of the commission in time of peace," reads the report (1940), "how much more urgent is it in time of war? How much more urgent will it be in the critical transition from war to peace again?"

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Viewed from the national standpoint, the case for agreement falls naturally into two phases: first, the hard inescapable reality of the existing situation; second, the problems now to be faced of reconstruction, employment, social security and social serv-

ices generally. In no possible way can either be evaded.

While the Sirois commission, basically, worked in the somewhat narrow field of dominion-provincial relations, its findings were specifically related to larger considerations. This is evident in the text of the report, page 109, where the advantages of concentrating in the hands of the Parliament of Canada the sole responsibility for deficit financing, for special public works programmes, for unemployment, debt retirement in periods of prosperity, are noted. Every aspect of what is now referred to as the theory of cyclical budgetting is set down in the report.

But the commission could not possibly foresee the extent to which the war would aggravate the basic problem. The report was written when peacetime dominion expenditures, 1939, stood at \$553 millions and revenues at \$502 millions; when the first war vote of \$118 millions had just been spent; when the funded debt stood at \$3.6 billions and the carrying charges thereon at \$128 millions per year. People were still thinking in terms of the first great war when out total war expenditures were less than \$2 billions.

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The hard reality of today is that in the current fiscal year the Dominion's expenditures are estimated at \$4,650 millions; revenues at \$2,515 millions. The funded debt, last March 31, stood at \$13,984 millions and the carrying charges were \$351 millions per year. The recent victory loan has added greatly both to the total debt and the carrying charges. On March 31, next, the debt will be close to \$16 billions and the carrying charges in excess of \$400 millions.

Expenditures on this vast scale, of course, will not continue but, when the emergency is over, the Dominion's

normal budget will be not less than \$1,750 millions or more than three times that of 1939. Indeed, it is estimated by competent authorities that by 1950 it will have risen to about \$2,000 millions and that debt service will devour at least \$450 millions annually. It is unnecessary to itemize this budget. The outlay for civil government and debt service—just two items—will run to \$1,000 millions per year.

Undoubtedly the postwar budget has been swollen by social security expenditures like family allowances (\$190 millions per year) and may well be increased by additional outlays on old age pensions and health. Whether or not these items are warranted, in view of the burdens already resting on the taxpayers, is not a factor in the present argument. This is so because if all such expenditures are ignored, put aside, the Dominion's rock-bottom budget would still be so great as to require to be financed in such a manner as not to cripple the productive capacity of the country. And this will only be possible if a satisfactory settlement of Dominion-provincial financial relations is achieved.

This over-abbreviated summary illustrates what is meant by the reality of the present position.

How is the Dominion to collect the taxes which will be required to finance the national budget? After all, Mr. Micawber's dictum holds as true of nations as of individuals. Consistently to spend more than you earn is, indeed, the path to misery. If the Dominion is compelled to rely for revenue upon indirect, regressive taxes—like the sales tax, customs duties, excise taxes etc.,—the burden on business and on individuals will be intolerable. The only way in which such

vast needs can be met is by direct or progressive taxes—the income and corporation taxes and succession duties. These taxes are based upon capacity to pay. They are taxes on profits accruing after the business has been done, not on business in the course of transaction. Even so, they will be a serious burden and a discouragement to initiative until such time as Dominion expenditures decline or the national income increases.

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It is the old story of a man and his burden. If you strap a heavy load to a man's leg or arm, or poise it off-balance on one shoulder—progress is difficult and soon becomes impossible. But if an otherwise insupportable burden is carefully balanced and securely fastened, it can be carried.

The only possible way in which this country can shoulder the burden which has to be shouldered is by progressive taxes.

It may be asked: But what of the provinces? Have they not also heavy responsibilities? The answer is simple. There is no province which has not materially improved its position as a result of the war. The provinces have great responsibilities but their need for revenue must be coupled with that of the Dominion in such a way as to make the combined burden bearable.

After the last war, the direct taxes were shared by the Dominion and the provinces—two income taxes, two corporation taxes, two succession duties. While most taxpayers will remember the results of double taxation even in pre-war days of relatively low rates, the facts are worth recalling in view of the possibility of failure in the present negotiations.

THE WEIGHT OF TAXATION

BEFORE the war the Dominion and the provinces imposed income and corporation taxes and succession duties. The taxes varied in form. In Nova Scotia, to illustrate, the municipalities, not the province, collected the income tax. But to the taxpayer the result was the same. Whether an individual or a corporation, two taxes were paid.

For reasons inherent in the make-up of this country, this duplication resulted in gross inequality. While the total revenue was not large, the taxes weighed much more heavily in some sections than in others. Canadians who lived in the western provinces and who earned middling or large incomes had the distinction of being about the most highly taxed persons in the world. Warrant for this statement will be found in a recent book on federal finance by G. F. Shirras. It will be found also in the Sirois report, book 11, page 111. Variation in the personal income taxes was extreme. In 1939 on an income of \$3,000 a Canadian married with no children, in Prince Edward Island paid \$61.90; in Nova Scotia and New Brunswick, \$30; in Quebec from \$30 to \$33; in Ontario \$44.50; in Manitoba \$77.14; in Saskatchewan \$71.50; in Alberta \$65; in British Columbia \$60. Or take the war year 1940, just before the wartime taxation agreements did away with double taxation. A single person with an income of \$1,500 paid: \$87 in Prince Edward Island; \$77 in Nova Scotia; \$137 in New Brunswick; \$81 in Quebec; \$83 in Ontario; \$112 in Manitoba; \$95 in Saskatchewan; \$99 in Alberta and \$86 in British Columbia.

The Dominion income tax, of course, was the same in every province. The variations were due to the differing rates imposed by the provinces. In the wealthier provinces a lower rate yielded much more revenue than did

the extremely high rates in the less favored provinces. Indeed in some of the latter the combined Dominion-provincial tax exceeded the total income upon which it was levied, if the income was sufficiently high.

These conditions, which also prevailed in corporation taxes and succession duties, made a rational use of these progressive taxes impossible. To gain essential revenue, the less fortunate provinces were compelled to impose very high taxes. The wealthier provinces could get along nicely on low taxes. Such a situation caused the Dominion government, in the national interest, to limit its taxes to what the taxpayer in the less fortunate provinces could bear. Dominion taxes ran like a ribbon across the base of the country's economy—of equal width everywhere. Above it the provincial taxes jutted up, like a mountain range. The wealthier provinces with low rates were the foothills. The less fortunate provinces with high rates, were peaks that pierced the clouds. Yet if all the money needed had been raised by one set of Dominion taxes, the rates throughout the country would have been comparatively low. The burden would have been fairly spread and could easily have been borne.

The reason for doing this was, and is, all the greater because the business of this country is not hived off into nine provincial compartments. Nor are Canadians who live in the west or in the Maritimes inferior in any way to their compatriots in the central provinces. The nation's business is one business.

The great policies which made Canada—the building of the railways and canals and airways; other and innumerable developmental measures—were national not sectional policies. These policies are responsible for the growth of the country and the accumulation

of its wealth in pools. Much business done in what are now called the less-fortunate provinces inures to the profit of the central provinces and British Columbia. The taxes in these wealthier provinces, prior to 1941, reaped a harvest on business which originated outside of their boundaries. Most of the great corporations have their head offices—their tax-paying domicile—in Ontario and Quebec.

It is plainly in the interest of all the provinces that the wealth of Canada should be distributed fairly; that certain areas should not be drained and the citizens who live in them be compelled to accept an unreasonably and an unjustly low standard of public services. And the fairest way of doing this is for the central government to impose direct taxes on all individuals and businesses and out of the money thus raised to correct the inequalities by way of subsidies to the

provinces. The amount of the subsidies should have regard to the needs of each province.

Failure to do this can have no other result than to place a great and an unnecessary strain on the national economy. The Canadians in the less-fortunate provinces, no doubt, would be the first to feel the pinch. But as the economy is one, it cannot be hurt in part without being hurt in whole. Like a rope, knotted off into nine sections, it cannot be frayed at some points without being weakened throughout its length.

For these reasons, there should be no conflict between the Dominion and the provinces regarding the possession of these direct taxes. It is alike in the interest of the Dominion and the provinces that there should be but one set of national taxes on incomes and estates; that the duplication of pre-1941 should not recur.

BOOMS AND DEPRESSIONS

AT the outset of these articles, the case of the Dominion Government in the present negotiations with the provinces was divided under two headings. First, the reality of the existing situation. Second, the problems of reconstruction, employment, social security and social services generally.

Under the first, these points were made: the war has placed a crushing burden on the Dominion in the form of vastly greater debt, and large and inescapable expenditures under various headings, of which defence is a fair example. A budget of \$1,750 millions has got to be financed and if the country is to pay the necessary taxes, without being crippled, the Dominion must have free use of the direct, progressive taxes. Second: the only way in which

the taxable capacity of this country can be fairly distributed as between the provinces is by one set of direct taxes, nationally administered and a system of subsidies to the provinces which will reflect the greater needs of some over others.

So much for the first phase of the Dominion's case.

The second phase is equally important. While there are many responsibilities which can be more effectively discharged by the provinces, there are others which by every test—experience or common sense—must rest upon Ottawa. The best illustration here is unemployment. The experience of the 1930's demonstrated that mass unemployment, while constitutionally a provincial matter, cannot be coped with successfully by the less-fortunate

provinces or, for that matter, by any of the provinces. Despite aid from the Dominion, the depression of the 1930's forced several of the less-fortunate provinces to bankruptcy. Indeed the Sirois commission was the result of the chaos thus caused. Mass unemployment is not a local, provincial matter. It is a national problem and can only be dealt with by the nation as such.

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By constitutional amendment enacted in 1940, jurisdiction in the matter of unemployment insurance was given to the Parliament of Canada. The unemployment insurance commission act followed; and became operative in July, 1941. As of September 30, last, the insurance fund covers 2,811,895 workers and amounts to \$304,961,000. It is still increasing at the rate of four or five millions per month. This is a fair indication of what a nation, as compared with nine separately functioning provinces, can do.

In the proposals of last August, the Dominion undertook, in return for specified concessions from the provinces, to relieve the provinces from responsibility for unemployment. The details of this offer are open to criticism and indeed have been criticised by the provinces. It is to be assumed however, that the Dominion meant what it said and that the criticism will be met.

Responsibility for unemployment means, equally, responsibility for employment. The one goes with the other. And right here, the Dominion's proposals with regard to reconstruction and high level employment fall naturally into a simple pattern.

That the Dominion should assume responsibility for unemployment and employment is implicit in our federal system as it presently exists and for the reasons given. But this respon-

sibility would inevitably fall upon Ottawa on two other counts:

The Dominion budget, henceforth, will be so large that it may well be a decisive factor in deciding if this country is to have good times or bad times. Much will depend upon how it is financed. This point is argued with cogency in the Dominion's proposals (page 8). The national budget, says the proposals has become, "the balance wheel of the economy; its very size today is such that if it were allowed to fluctuate up and down with the rest of the economy instead of deliberately counter to the business swings it would so exaggerate booms and depressions as to be disastrous."

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In bad times state expenditures will rise and deficits necessarily will be incurred. To attempt to tax for these additional outlays, on top of the already high taxation, might well place an insupportable burden on business. In good times, state expenditures will fall and the deficits previously incurred should be paid off. Obviously, this is a task which can only be shouldered by the central government. Nine provinces acting as such, could not possibly do it.

This, of course, is the so-called "cyclical budget" theory. The weaknesses in it are obvious. Politicians and governments are quick to seize upon any warrant for increased expenditures. Mr. Ilsley's recent outburst against the demands to spend more money is but a reminder of this fact. They tend to offer lip service only to economy and are leaden-footed in the approach to taxation increases. To many of them, the cyclical budget theory is attractive chiefly as an invitation to spend more money, to saddle large and continuing commitments upon the country. But, the theory apart, the fact remains that hard times will bring increased expenditures and deficits as certainly as day

brings night. If such deficits are ever to be repaid, Parliament is the only taxing body competent for the task and the progressive taxes the only efficient instruments available.

The second point concerns the maintenance of high level employment as a part of the international effort to expand trade. In the past, nations have made hard times harder by endeavoring to achieve prosperity for themselves, regardless of world conditions. By tariffs, quotas, currency manipulations and other devices, they have tried, without success, to export their unemployment.

It is now accepted that world trade cannot be successfully revived and maintained at ever increasing volume unless such practices cease. Individual nations must do their utmost to maintain domestic employment by means which do not cripple, but rather encourage, imports. The kind of policy favored here includes measures of social security (family allowances for example), development of natural resources, public works and so forth.

At the forthcoming international trade conference called by the United States government, a definite commitment along these lines will be sought from each and every nation. The

point is covered in article four of the U.S. proposals for the "expansion of world trade and employment." The passage is too long to quote here.

Obviously, only one government in this country can subscribe to such an agreement—the central government. And the responsibilities thus accepted cannot adequately be discharged unless the Dominion, in effect, has possession of the direct taxes. The expenditures involved might well be too great to be financed in any other way.

Thus while the Dominion's proposals cover the full range of international and national problems, they come back constantly and finally to the conclusion that the provinces should forego their right to impose income and corporation taxes and succession duties, "leaving to the Dominion the full and exclusive access to these revenue sources. "In return, of course, the Dominion would indemnify the provinces by subsidies.

In bald summary, these are the arguments in support of the dominion. Alternatively, it is the view of the Dominion (page 47 of the proposals) that reversion to pre-war duplicatory taxation will rob these policies "of any chance of success."

MR. DREW'S PLAN

(On January 6, Mr. Drew announced his alternative plan for a Dominion-provincial settlement.)

MR. DREW has finally stated his reaction to the Dominion proposals for the settlement of Dominion-provincial financial relations. So long as the position of the larger provinces, particularly that of the government of Ontario, was not known the discussions had perforce to proceed in an air of unreality. Mr. Drew's statement, for better or for worse, at least makes

it possible to get to grips with the basic issues.

Whether Mr. Drew's contribution will ultimately facilitate, or make utterly impossible any workable agreement remains to be seen. Certainly the Ontario premier's approach to the whole problem is diametrically opposite to that proposed by the Dominion.

The Dominion's case, as stated in

its submission to the August conference, proceeded on the basis of the undeniable fact that the war had placed very heavy burdens, and the needs of post-war reconstruction had fixed unavoidable responsibilities upon the federal government. The huge war debt has trebled the annual interest charge, the re-establishment and rehabilitation of returned servicemen would cost many hundreds of millions; the substantial cost of our contribution to the relief of war-ravished peoples would have to be borne; the maintenance of a defence establishment adequate to meet our obligations to the United Nations would entail expenditures many times the pre-war figure.

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These items alone would increase the federal budget by three times that of any previous peacetime year. Further, the achievement of satisfactory post-war economic reconstruction is fundamentally dependent upon the restoration and expansion of export trade. In the disjointed world of the present this expansion is possible only if the Canadian government stands ready to extend literally billions in loans and advances to our temporarily impoverished customers. These are inescapable responsibilities of the federal government. In order to carry them, the Dominion has argued that it must have sole access to certain nationally produced revenues, namely the progressive taxes on incomes, corporations and estates. Mr. Drew's proposals would deny this. Indeed, he goes further and asks that the Dominion turn over to the provinces exclusively certain tax fields which the Dominion now uses. How are the over-riding national obligations to be met—obligations which only the Dominion can, and must, carry in the interests of the country as a whole? Mr. Drew appears simply to ignore them.

The inability of the less favored provinces to provide adequately for essential provincial services has long been a chronic problem in our federal system. The growing crisis resulting from this problem during the depression was the immediate occasion for the appointment of the Sirois Commission. For the solution of this difficulty the Dominion has proposed that there should be a clear-cut re-distribution of tax fields and of certain responsibilities in accordance with modern realities; and that the provinces should receive stipulated per capita subsidies designed to enable all of them to meet their essential requirements. This proposal is based on the theory that it is desirable in our federal structure to maintain the greatest possible measure of fiscal autonomy and independence on the part of both the Dominion and the provinces. While Mr. Drew also seeks to accomplish this result, his proposal upon examination appears to be founded on the opposite conception.

Under Mr. Drew's scheme the position of the less favored provinces would not be met by a clear cut and direct method. He would create a fund to which all the provinces contribute and from which the needy provinces would receive subsidies as determined by a continuing Dominion-provincial co-ordinating committee composed of the representatives of the nine provinces and the Dominion. In carrying out this proposed function the proposed Dominion-provincial committee would inevitably come to scrutinize the financial policies of all the provinces and the Dominion.

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What in practice would this mean? It would mean in fact that no government would have real fiscal autonomy and that its affairs in one way and another would be subject to a body, which as such, was responsible to no one. In national matters, the Domin-

ion government instead of determining its financial policy in accordance with its direct responsibility to the people as a whole, would be beholden to a committee of provincial premiers. To permit matters of national concern to become tied up in such a hopeless web of inter-governmental machinery or to be determined by the grace of the provinces, would be an intolerable abdication of national responsibility.

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Consider the position of an individual province requiring assistance from Mr. Drew's proposed fund. Suppose it is strongly dissatisfied with the decision of the so-called co-ordinating committee. To whom would it have recourse? The individual provincial premiers on the committee would not be responsible to the people of Canada as a whole or to the people of the separate provinces other than their own. It is hard to escape to the conclusion that under Mr. Drew's scheme the financially stronger provinces would

have a preponderant influence over the financially weaker.

Finally Mr. Drew's proposals would not bring any fundamental improvement in the confused tax situation which so bedevilled our economy before the war. Under Mr. Drew's plan the Dominion and the provinces would both resume the pre-war system of duplicate taxes at competitive rates on personal incomes and corporations. We have hitched our post-war wagon to a star of high employment, the encouragement of private enterprise and expanded capital investment. Surely experience has shown how these objectives can be completely thwarted by the effects of inequitable double taxation, competitive assessments and arbitrary impositions by conflicting jurisdictions.

On the major issues Mr. Drew's proposals appear to fall far short of the basic requirements and realities of Canada's post-war position. Perhaps that is only a first impression. We wait for more elucidation.

SURPRISE AND DISAPPOINTMENT

TWO words describe the effect upon the Dominion Government and the senior officials here of the Ontario proposals which were made public in the newspapers on Monday morning—surprise and disappointment, keen disappointment.

Both were the result of the nature of the Drew proposals. Even in the abbreviated form in which they were available at Ottawa, Sunday, it was clear that the Ontario Government had taken a position so fundamentally opposed to that of the Dominion that compromise is impossible.

To understand the Ottawa reaction, a summary of events since last summer is desirable. When the European war ended in May, it was recognized that

the end of the Japanese conflict was only a matter of time. The agreements between the Dominion and the provinces, which had obtained since 1941, and under which the provinces had withdrawn from the income and corporation tax fields, were due to expire one year following the end of war. The necessity of reaching new agreements with the provinces based upon the realities of the post-war situation was obvious. A Dominion-Provincial conference was called in August and the Dominion met the Provinces with definite proposals. In doing so, the Dominion invited the Provinces to submit alternative proposals. Time, however, was pressing more urgently than ever because the Japanese had

surrendered. The end of the tax agreements was in sight.

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The schedules then in the minds of the Dominion delegates called for a general review of the Dominion-Provincial problems in August, a period for further study, the resumption of the conference late in November and a final settlement by January at the latest. It was equally essential for all governments to know as quickly as possible where they stood with regard to taxation, revenues, and over-all policies, so that budgets could be planned and post-war problems be met.

What happened was that no real discussion took place at the August meeting. At the November meeting several of the provincial premiers—Mr. Hart of British Columbia for example—came forward with modifications of the Dominion proposals. But in no case were the proposed changes so radically different from the Dominion's plan as to make agreement impossible or even difficult.

Throughout these months, Mr. Drew kept his own counsel. He repeatedly declared that the conference "must" succeed. He seemed, to the Dominion delegates, not to be unsympathetic or unreasonable but, rather, favorable to a settlement which might not be all that the Dominion would desire but which would be well within the range of compromise.

After the November conference closed, the experts of the Dominion and the provinces continued to exchange information and to canvass various angles of the Dominion's proposals. These meetings of the experts went on until a few days before Christmas and were to be resumed Tuesday. The main conference will reconvene on January 28 and by this time it was confidently believed that a settlement would be reached within a matter of days.

It was at this critical point that Mr. Drew announced alternative proposals which differ from those of British Columbia or any other province which has yet spoken in being wholly unacceptable to the Dominion. More than that, the Drew proposals are believed to be equally repugnant to most of the provinces. Mr. Drew has ruled out the very base upon which the Dominion's proposals rest and upon which the negotiations hitherto have proceeded; he has done more than to force the negotiations back to their beginning; he has presented a fundamentally different approach, an approach which cannot be considered unless the Dominion's proposals are abandoned.

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Compromise between views so at variance is impossible. To mix oil and water would be a simple matter, compared to fusing these two sets of proposals.

The surprise and disappointment at Ottawa and undoubtedly in many provincial capitals today is therefore understandable. It is in an atmosphere of doubt and uncertainty; of underlying and deep hostility, that the main conference will resume on January 28. The only escape from this conclusion is that Mr. Drew really does not mean what his proposals assert and will be prepared to withdraw them. Some optimists at Ottawa profess so to believe. But they are not numerous.

Time and events, however, will present all governments with questions they must answer. If there is to be no agreement, so much the worse for everybody.

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The weight of opinion here, it may be said, is that the country will not tolerate a fresh descent into duplicatory and competing taxation, into a condition of impotence with regard to unemployment. Therefore there is a

degree of relief now that Mr. Drew has thrown aside the mask.

By identifying himself as the leader of narrow, selfish provincialism—of the compact theory of confederation, which holds that Canada is not one nation but an aggregation of nine sovereign provinces—by so doing, Mr. Drew may well bring matters to a

head. This is and has been for years past, the basic issue facing this country. Agreement at this conference might have resolved it happily for all, but since every great problem now facing Canada must wait upon the solution of this problem there is some satisfaction in the thought that at last the issue has been joined.

THE PROPOSALS COMPARED

IN view of the wide divergence between the approach of the Dominion and the province of Ontario to a solution of Dominion-provincial problems, here are the salient points in both cases. Condensation has been necessary, for the sake of brevity, but the essential points are covered below.

Dominion Proposals

1. "After the war the provincial government should by agreement forego the imposition of personal income taxes, corporation taxes and succession duties, leaving to the Dominion Government the full and exclusive access to these revenue sources. The Dominion Government further proposes that as a condition of such agreement the Dominion should substantially expand its present payments to the provincial governments under an arrangement which would ensure stable revenues and provide for their growth in proportion to increases in population and per capita national production. Although any provincial government would have the right to withdraw from the arrangement at any time since it is not proposed to seek a constitutional amendment, the Dominion proposes an agreement under which the provincial governments would commit themselves not to withdraw before an initial trial period of say three years."

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2. "Although provincial budgets will receive substantial benefit from the implementation of the Dominion's proposals in regard to the unemploy-

Drew Proposals

1. "The Ontario Government finds itself unable to approve of the proposal of the Dominion Government that it surrender its progressive tax powers. . . . We submit for consideration an alternative plan. The Dominion shall levy corporation and personal income taxes under its own acts, but not succession duties. The provinces shall levy corporation and personal income taxes at their own rates, but under acts uniform with the Dominion. The provinces shall levy succession duties under uniform acts. The Dominion shall collect corporation and personal income taxes as agent of the provinces; the provinces shall collect succession duties. . . . The Dominion government should vacate the following fields: succession duty, gasoline tax, amusement tax, race track pari-mutuel tax, security transfer tax, electricity tax; and effectively recognize priority of provincial taxation on mining and logging operations."

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2. "From the present Dominion-Provincial conference should be formed a Co-ordinating committee, composed of the Prime Minister of Canada and

Dominion Proposals—Continued

ment assistance and old age pensions, and from its full employment programme generally the provincial governments clearly cannot cease to levy succession duties and continue to forego income and corporation taxes after the war unless assured of an adequate alternative revenue source. The Dominion Government therefore proposes, in lieu of present statutory subsidies and payments under the war-time tax agreements, and conditional upon provincial acceptance of its tax proposals to pay each provincial government the sum of \$12 per capita annually, increased or decreased in proportion to the value of Gross National Production per capita as compared with 1941. This proposed annual payment would, however, be subject to an irreducible minimum equal to \$12 per capita of 1941 population.

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3. "The financial proposals would guarantee all provincial governments sufficient revenue to discharge their basic constitutional responsibilities . . . a substantial part of each provincial government's revenue, would under the proposed agreement, be set on a simple and fair per capita basis. This would ensure an adequate minimum of services in every province and would make it possible to avoid abnormally high taxes in any. . . . It is the belief of the Dominion Government that the proposed financial arrangements would strengthen the federal system under which all ten governments here represented function. They would give to each government an assured basis of financial responsibility and freedom of decision in matters entrusted to it by the constitution."

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4. "These fundamental proposals are not lightly made. The continuing expenditures arising out of the war

Drew Proposals—Continued

the premiers of the various provinces of their nominees . . . ten per cent of the provincial corporation taxes, personal income taxes and succession duties shall be placed in a fund, to be known as the National Adjustment Fund, for division among the provinces in the form of Provincial Adjustment Grants on the basis of fiscal need to be determined by the Dominion-Provincial Co-ordinating Committee. A readjustment of provincial corporation income tax revenues would be provided so that the advantage of head office location in some provinces would be shared by all provinces. The Dominion would continue to pay subsidies as provided by the B.N.A. Act of 1867, and amendments."

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3. "If provincial governments, and in turn the provincial legislatures, were to abandon their most important sources of direct taxation in return for an annual payment on a fixed basis, they would place themselves in a legislative strait-jacket from which they could only escape by abandoning still further powers in return for added payments at some date in the future. No matter what the intention may be, the almost inevitable result which would follow the acceptance of such an arrangement would be the ultimate abandonment of the Federal system in favor of a Unitary system of government in Canada. Provincial fiscal autonomy can only be preserved by each provincial government having power to impose its own taxes and to raise such sums of money as it deems necessary for the efficient carrying out of its administrative functions. . . . The Dominion's subsidies are inadequate."

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4. "These submissions have been presented with the acceptance of the basic principle that while each provincial government owes its primary

Dominion Proposals—Continued

will be heavy. National progress and the fulfillment of necessary international commitments both require the Dominion Government to undertake a large programme of national development and national welfare. It will clearly need to make full use of its power to impose national taxes on personal incomes, corporations and estates. Its revenue needs will be so great that duplication of these taxes by other governments would seriously restrict enterprise and output and would jeopardize Canada's employment programme."

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5. "As a part of the general arrangement with the provincial governments, the Dominion Government now proposes to establish a practicable and comprehensive system of assistance to able-bodied unemployed persons . . . the plan proposes acceptance of Dominion responsibility for unemployed employables, and provincial and local responsibility for unemployables. . ."

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6. "It is proposed that the federal government would establish a system of National Old Age Pensions entirely financed and administered by the federal government, and paid at the uniform rate of \$30 per month regardless of means to men and women aged 70 and over in all parts of Canada. . . . In addition it is proposed to provide old age assistance for persons of age 65-69, in cases of need." (50 per cent to be paid by the province.)

Drew Proposals—Continued

responsibility to the people of its own province, the welfare and prosperity of the people of all provinces depend upon the strength and vigor of the whole nation. We are also convinced that the strength of our national structure very largely depends upon the strength, independence, and self-reliance with which each provincial government is able to undertake its own allotted tasks. With a spirit of co-operation, understanding and mutual good-will, this conference can lay the foundation for Canada's greatest period of expansion and prosperity without any fundamental changes in the constitutional structure. . . ."

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5. "The Ontario government contends that the Dominion government should assume full financial responsibility for public assistance of the employable unemployed. It is submitted that the present provincial services, including provincial services, including mothers' allowances, children's aid, public assistance for unemployables and other approved provincial public welfare services, should be financed by the Dominion government to the extent of 75 per cent of the cost, the provinces to bear the remaining 25 per cent and the cost of administration."

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6. "The province of Ontario agrees that old age pensions should be extended to all citizens over 70 years of age without a means test, but disagrees with joint Dominion-provincial contributions to pensioners under the age of 70 with a means test."

COMPLETELY IMPRACTICAL

ONE of the outstanding features of Premier Drew's proposals for the settlement of Dominion-provincial relations is their complete disregard of the financial position of the federal

government. In fact this defect alone makes the whole plan unworkable.

Premier Drew would deny the Dominion sole access to the taxes on personal incomes, corporations and

wants the field left open to the additional levies of the provinces. Furthermore, he asks that certain other direct taxes should be reserved exclusively to the provinces. He wants the Dominion to vacate the following fields: succession duty, gasoline tax, security transfer tax, electricity tax; and effectively recognize priority provincial taxation on mining and logging operations. Having thus stripped the Dominion of access to tax revenues he would have the Dominion take over the whole responsibility for unemployed employables, to pay the full cost of old age pensions to all persons over 65 without means test, to absorb 75 per cent of the cost of approved provincial welfare services including relief for unemployed; and proposes that the Dominion should contribute an adjustable amount to the cost of provincial public works.

There is obviously no logical balance in these proposals. Let us see where the Dominion would stand if these are adopted. On the basis of existing obligations, before Mr. Drew's or anyone else's schemes for further outlays are added, the expenditures of the federal government would run to at least \$1,500 million in a normal peacetime year. This is about \$1,000 million more than before the war. It includes over \$400 millions a year for interest on the national debt, nearly \$200 millions for family allowances, \$100 millions for soldiers pensions and care, and several hundred millions for defence and other international obligations. These are inescapable responsibilities for which the Dominion must have adequate tax revenues.

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On top of these existing claims Premier Drew says the Dominion should bear full burden of old pensions from age 65 which would cost over \$330 millions a year. Notwithstanding his suggestion that this should be done as soon as the necessary financial re-

sources permit, the Dominion must face this demand from the outset. Premier Drew's proposal that the federal government assume 75 per cent of approved provincial welfare services, including relief to unemployables, would eventually add \$100 millions to Dominion expenditures. The complete responsibility for unemployment relief and proposed grants to provincial public works would involve a widely fluctuating outlay and at times would reach very large figures. In short Premier Drew's plan would raise the federal budget to about \$2,000 million a year. How, with the restriction of the Dominion's taxing power which he proposes, does he think this will be financed?

Under Premier Drew's scheme the Dominion would have to share the tax levies on personal incomes and corporations with the provinces. Under such a system of duplicate imposts the combined rates would either be so high as to be ruinous to industry and employment, or the Dominion's receipts would fall far short of what it needs. Since Premier Drew would exclude the federal government from virtually all other direct tax fields; the only important alternative source of necessary revenue would be the general sales tax. A substantial increase in this regressive tax, which is already at the high level of 8 per cent, would fall heavily upon the cost of living and upon costs of production. Surely we are not going to carry out the tasks of post-war reconstruction with a tax policy of this nature.

Premier Drew's proposals for giving more taxing power to the provinces while at the same time adding substantial expenditures to the federal budget, would open the door to a large expansion in total government costs in Canada that would have to be financed by a regressive, inefficient and duplicating revenue system. This was the kind of system with which this country

struggled during the depression. It was unanswerably condemned by the Sirois Commission even under the conditions of much lower expenditures which then existed.

There should be no need to emphasize that the burdens of the war and

the requirements of the future have greatly increased the necessity for an effective reform in our fiscal structure. It cannot be set aside by any plan that refuses to face the realities of the national responsibilities of the federal government.

MR. DREW'S APPEAL TO HISTORY

TWO considerations, above all others, call for the careful examination of the proposals for a settlement of Dominion-provincial problems made public on January 6 by Premier George Drew of Ontario.

The first concerns the essentiality of agreement if this country is to face the future with confidence. Since Mr. Drew has repeatedly stated that success in these negotiations "must" be achieved, the point does not arise in respect of his proposals. If he were advocating postponement or stalemate it would be different.

The necessity of reaching agreement being conceded by all, the argument passes to the nature of the difference—and it is fundamental—between Mr. Drew and the Dominion Government.

The crux of this difference concerns the possession of the direct taxes—the income and corporation taxes and succession duties. The Dominion, in its proposals of last August, asked the province to surrender these taxes for a period of three years, in return for subsidies and other considerations which, in the aggregate, were calculated to be sufficient to meet the just needs of the provincial budgets. Mr. Drew, in counter proposals has not only refused to surrender these taxes but has insisted that the Dominion must vacate the field of succession duties in favor of the provinces.

The second consideration is this: Mr. Drew in his proposal declares that nothing less than our federal system as

created in 1867 is at stake in the present negotiations. For the provinces to withdraw from these direct tax fields, Mr. Drew believes, would destroy the very structure of Confederation.

* * *

Undoubtedly it is this second consideration which bulks the greater in the mind of the premier of Ontario. As to the necessity of agreement—Yes. On terms which he believes would destroy Confederation—No. For this reason his refusal of the Dominion's proposals is not attributable to whim or partisanship.

Apart altogether from the difficulties and complexities of the times, Mr. Drew perceives in this conflict much more than a Toronto-Ottawa squabble. His appeal is to history, to the traditions of our federal system, to the Fathers of Confederation. He casts himself, with all sincerity, in the role of the defender of the constitution—of our way of life.

It is this second consideration which provides the basic underpinning for the whole of Mr. Drew's case and for this reason it merits careful presentation and consideration.

At the outset of his proposals, Mr. Drew declares that in seeking the advancement of the national welfare, "our constitutional background must be recognized, and the special considerations which greatly affected the form of constitution under which Canada became a nation must always be

borne in mind." The proposals by the Dominion that the provinces should retire from these tax fields, he declares, poses a "fundamental" principle. He defines this principle in these terms: . . . "the fundamental question to be determined is whether or not the time has come to abandon the federal system, in fact if not in name, in favor of a centralized, unitary system of government. It is well, therefore, to review the distinctive attributes of the true federal system which Canada adopted in 1867 . . ."

In doing so, he proceeds to point out that while in 1867 the power of the Dominion to levy any kind of taxation was unrestricted, the field of direct taxation was left open to the provinces. This, he says, was done because:

"It would be necessary for them to have the power to impose the taxes necessary to raise the money for the purpose of carrying out those responsibilities, under the supervision and subject to the approval of the provincial legislatures. The principle was accepted without question as a basic necessity for the effective functioning of our federal system."

Thus, Mr. Drew reaches the conclusion that, "the primary and simple purpose of the Fathers of Confederation was to conserve the autonomy of the provinces . . ." The power to impose direct taxation, Mr. Drew implies, was conferred upon the provinces as the means of attaining this "primary and simple purpose."

The wisdom of the Fathers of Confederation in so deciding, he goes on, has been amply demonstrated throughout the past 79 years.

"If we were confronted with exactly the same problems as faced the Fathers of Confederation—the writing of a national charter suited to Canada's needs—what form of government would be chosen?

Surely we would come to the conclusion that nothing has happened to alter the logic of a federal structure in a state of such area and diversity . . . Although they are not economic islands, separate from one another, it still remains true that the provinces constitute, and should continue to constitute, like the states of the American Union in the words of Justice Holmes, "insulated chambers" for legislative experiment . . ."

* * *

What would happen if the provinces were to yield to the Dominion? Mr. Drew poses this question and answers it:

"If the provincial governments, and in turn the provincial legislatures, were to abandon their most important sources of direct taxation for an annual payment on a fixed basis, they would place themselves in a legislative strait-jacket from which they could only escape by abandoning still further powers in return for added payments at some date in the future."

The result, he says, would be a unitary government and in the long run some form of despotism.

This is the essence of Mr. Drew's case.

The examination of it will be a matter for later articles. As a generalization, however, this may be said:

The appeal of tradition, of what may be termed the principle of legitimacy in constitutions is a strong one and rightly so. If Mr. Drew could substantiate his reading of the past, if he could summon but one of the Fathers of Confederation to bear him witness, his case undoubtedly would be strengthened.

* * *

True, he can appeal, as he does, to the judgments of the privy council

which by judicial decision since the turn of the century has re-made the constitution of this country—against the wishes of its people. He can appeal, as he does, to the United States where the constitution exalted states' rights—a fact regarded by the statesmen who made Canada in 1867 as a peril to be avoided. Was the civil war not a struggle resulting from states' rights? The Canadian constitution by design was made the direct opposite of the United States constitution in this regard.

Unfortunately for Mr. Drew the events which resulted in Confeder-

ation in 1867 are of record in the proceedings in the legislatures of the four colonies—sometimes called provinces—which federated. Over the space of 1,000 printed pages our own Hansard of the Confederation debates contains the views of the majority that supported and the minority that opposed the union in Canada. Not only are the facts not as Mr. Drew states them. They are exactly the reverse. The basic structure of Mr. Drew's case, in fact, does not exist. On the contrary, the federation which was created in 1867 was exactly the kind of structure now proposed by the Dominion.

A BOGUS ARGUMENT

BOTH in the formal proposals made to the Dominion-provincial conference and in his public addresses, Premier George Drew is insisting that the people of Ontario are confronted in the present negotiations at Ottawa with a choice between freedom and an unmistakable but undefined brand of totalitarianism. The issue, he says, is centralization versus federalism as we have known and practiced it in the past 78 years. And centralization means the loss of our freedom.

"We have seen, almost before our eyes, democracy after democracy destroyed in many countries by too great centralization of power."

"...no matter under what disguise, depotism in some form has followed sooner or later, of for no other reason than the difficulty of attempting to maintain a true democratic system while trying to operate centralized government within the original federal structure."

* * *

The same kind of argument has been presented in support of Mr. Drew by the *Globe and Mail*, as for example

(October 2, 1945): "There is more to be lost by centralization than can be reckoned on a tax form . . . There are some things, such as the right of the citizen to government which money cannot buy." And again: "Decentralization of authority, even with such co-operation among the parts as Premier Drew strives for, may remain relatively costly: but if the added cost ensures the power to the citizen, who will call it waste?"

Appeals of this kind, to be sure, will not and should not be ignored in Ontario or in the rest of the country. Freedom is never to be taken for granted.

But the facts are indisputable. The Dominion's proposals of last August do not call for the slightest change in our constitution. The Dominion does not seek to amend the British North America Act or to reduce by a scintilla, by the slightest particle or trace, the jurisdiction of the provinces. What is proposed is that by agreement the provinces should vacate the fields of direct taxation for the space of three years. Even if the transfer were to be for all time, the powers of the prov-

inces would still be intact since the inevitable corollary of such a step would be the payment by the central government to the provinces of subsidies adequate for their needs.

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Direct taxation was not in use at the time of Confederation or for a generation thereafter. The provinces were conceived, born and reared in a federation in which their chief source of income was precisely the kind of subsidy which the Dominion now proposes to pay in return for exclusive possession of these taxes.

Why, it may be asked, did the con-

stitutional logic which Mr. Drew now asserts to be inevitable-not operate from 1867 onwards? To be consistent he must argue that Canada was created with a centralized constitution and an unitary form of government; that it did not begin as a federation at all. The birth of federalism in Canada, by his reasoning, commenced only when the provinces imposed direct taxes and ceased to rely heavily upon Dominion subsidies. That was, in most cases, within living memory. Indeed, in some provinces it has yet to come about.

The argument, patently, is worthless.

MR. DREW'S CASE EXAMINED

IN seeking a solution of Dominion-provincial problems, says Mr. Drew, "the special considerations which greatly affected the form of constitution under which Canada became a nation must always be borne in mind." The wisdom of the Fathers of Confederation, in his view, has been amply demonstrated in the past 79 years.

So guided and supported, Mr. Drew affirms that at the time of Confederation it was decided to give to the provinces, "wide sovereign responsibilities in many of the most important fields of legislation." Unhappily for Mr. Drew, no support for his thesis is to be found in the records of Confederation.

Sir John A. Macdonald, in the Confederation debates (page 29) states categorically that he had been in favor of a legislative and not a federal union. He desired one government and one parliament. He had been opposed to having any provincial governments and legislatures. A legislative union, however, had been impossible because, "the people of lower Canada" (Que-

bec) insisted on special safeguards for their institutions, particularly with regard to language, education and religion. Also, the maritime colonies were not prepared entirely to forego their "individuality as separate political organizations."

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Sir George Cartier (page 57) confirmed the fact that there was a strong feeling for a legislative union which he had resisted.

Hon. George Brown indicated clearly (page 995) that he also would have preferred a union to a federation but that since a union was not practicable, the federation should be accepted with enthusiasm. He had no regrets that Lower Canada (Quebec) had obtained security for their local institutions.

The views of the most influential of all the Fathers of Confederation, Sir Alexander Galt, will be found at page 263 of the debates: "We may hope that at no distant day, we may become willing to enter into a legislative union instead of a federal union as now proposed. We would have all have

desired a legislative union . . . but we found it was impossible to do that at first."

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Thus, it is clear on the record that Mr. Drew finds himself today in the position of premier of Ontario entirely because of the attitude taken by French Canada and the Maritime colonies in the negotiations leading to Confederation.

Having conceded the federal principle and accepted provincial legislatures, it is equally clear, in the Confederation debates, that the Fathers of Confederation regarded these legislatures as local and relatively unimportant bodies.

Sir John pointed out, pages 32-3, that great care had been taken to profit by "the defects which time and events have shown to exist in the American constitution." One of these defects he defined in the following language: "Ever since the union was formed, the difficulty of what is called state rights has existed, and this had much to do in bringing on the present unhappy war (civil war) in the United States. . . . We have avoided all conflicts of jurisdiction and authority. . . . We have adopted a different system. We have strengthened the general government. We have given the general legislature all the great subjects of legislation." He went on to say that the central government was to possess all jurisdiction not specifically conferred upon the local legislatures. "We have thus avoided that great source of weakness which has been the cause of the disruption in the United States."

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Sir John could not, of course, foresee that provincial autonomists like Mr.

Drew, Mr. Hepburn and Mr. Duplessis would one day arise to challenge the work of 1867.

On the same point, Hon. D'Arcy McGee, a member of the government which brought about Confederation, put it in these terms—"a powerful central government, a powerful central legislature, and a decentralized system of minor legislatures for local purposes."

Additional evidence of the relative unimportance attached at the time of Confederation to the local legislatures was the provision in the Confederation resolutions and, later, in the B.N.A. Act, that provincial statutes could be disallowed at pleasure by the Dominion. That such power would be used freely if the Dominion deemed such action necessary was made clear by all the leading spokesmen for Confederation and by none more explicitly than by Cartier (page 408) and Langevin (page 5376).

In point of fact, the importance of the legislatures in the proposed federation was so little regarded by the legislative assembly of the union of Canada, which successfully led the movement for Confederation, that the Macdonald-Brown ministry refused even to discuss them in any detail until the decision had been taken on the larger question. The provinces in the new federations would be unimportant, local bodies. Why bother to talk about their constitutions until it was clear that the main issue had been settled.

Whatever merit there may be in the Drew proposals of January 6, the appeal to history is spurious. In fact, Mr. Drew is seeking to re-write the constitution of this country in a way which the Fathers of Confederation considered and rejected.

THE EXAMINATION CONTINUED

WITH regard to direct taxation, Mr. Drew bases his claim for provincial possession on constitutional grounds. The field of direct taxation, he states, was left open to the provinces at the time of Confederation because: "It would be necessary for them to have the power to impose the taxes necessary to raise the money for the purpose of carrying out those responsibilities, under the supervision and subject to the approval of the provincial legislatures. The principle was accepted without question as a basic necessity for the effective functioning of our federal system."

Mr. Drew's version of what happened in 1867 is at variance with the record. Not only was there no reason to believe at the time of Confederation that the newly created provinces would impose direct taxes, but the Confederation scheme would have failed in the assembly at Quebec in 1865 unless definite assurances to this effect had been forthcoming from the Fathers of Confederation.

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Indeed, the most effective argument made by the opponents of Confederation was that the proposed constitution would be cumbersome and costly. There would be ten governments and with the central government possessing all the indirect sources of income (with minor exceptions in favor of Nova Scotia and New Brunswick) the provinces would inevitably resort to direct taxes. The critics pointed constantly to the fact that the proposed constitution conferred this power upon the legislatures.

With one accord the spokesmen for Confederation declared such fears to be groundless. Direct taxes would not be imposed. The antagonism to such taxes in the Maritimes, in Lower Canada and even in Upper Canada was

such that the Fathers of Confederation, at the Quebec conference, had been driven to find an alternative method of financing the provinces. Such a method had been found in unconditional subsidies to be paid to the provinces by the central parliament at the rate of 80 cents per head.

To some of the leaders in the Confederation movement this was a matter of keen regret. George Brown, page 757, said this: "As far as my own judgment is concerned, it would have been a desirable arrangement if we could have got each province to collect by direct taxation the moneys it required to meet its own local expenditure. That was what I intended. But we had not the making of the whole bargain."

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Just how the "bargain" was made he told (page 92-3) in these words: "I trust I commit no breach of discretion in stating that in conference I was one of the strongest advocates for defraying the whole of the local expenditures of the local governments by means of direct taxation. . . . But, Mr. Speaker, there was one difficulty in the way—and the difficulty was simply this, it could not be done. We could neither have carried it in the conference nor yet in any one of the existing provincial (colonial) legislatures. Two courses were open to us—either to surrender to the local governments some source of indirect revenue, or collect the money by the federal machinery and distribute it" (by subsidies) "to the local governments for local purposes."

Galt pointed out that the revenues of the legislatures, to be derived chiefly from subsidies, would be adequate. He regarded the fact that their only recourse for additional money would be to direct taxation as a restraining influence against extravagance. Pub-

lic opinion would compel the provinces to keep within the limits of their non-direct tax revenues. Galt clearly perceived the peril to the whole plan of Confederation of any admission that the legislatures might impose direct taxation. At page 515, Christopher Dunkin, the most formidable of the opponents to Confederation in the old colony of Canada, quoted Galt as saying: "Yes, indeed, and it would have been a very pleasant thing for the gentlemen opposed to the scheme if it had thrown upon the provinces the necessity of resorting to direct taxation."

That the opponents of Confederation were irked by their inability to make this criticism hold, is evident in countless passages in the debates. The cry against the plan in the country was, "Confederation is direct taxation." "The government, knowing how much the people fear direct taxes," said one opponent, "tell them that Confederation involves them in no such risk."

But the men who made Confederation stuck to their guns. There would not be direct taxation. The reason why such power was being given to the provinces was that it had always been conferred on municipalities and similar local bodies. The provinces would be local bodies. But just as the municipalities had never invoked the power, neither would the provinces.

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"The hon. member says that it will be impossible to administer the affairs of the local legislatures without recourse to direct taxation," said Langevin, the solicitor general, "but a man of his experience ought not to have

made that assertion. Instead of attempting to trade on popular prejudice, he ought to have admitted at once that the right granted by the new constitution of levying direct taxes is the same that already exists in the present constitution; it is the same right that all municipalities possess. It does not follow that the right will be exercised. The people are not in favor of direct taxation. They would be unwilling to adopt it as a system in place of indirect taxes; hence the attempt to use it as a bug-bear in order to alarm the people . . . Members talk of direct taxes. But the people will see that there is no danger of direct taxation."

Toward the close of the debate one waverer, coming down in support of Confederation, put it this way: "A great outcry which is raised against Confederation is that about direct taxation. For my part, I consider that the hon. minister of finance (Galt) has proved clearly that we shall not require to have recourse to it."

References of this kind from the Confederation debates could be multiplied ad infinitum. The sum is this: When Mr. Drew, seeking historical sanction for his present position, declares that the power to impose direct taxation was deliberately given to the provinces to enable them to raise money to finance their responsibilities, and that this principle was accepted as the basis necessary for the effective functioning of our federal system—he is stating what is demonstrably not so. The precise opposite is the fact. Indeed, the truth is that the passage of the Confederation resolutions through the legislative assembly of Canada would have been greatly aided if no power to impose direct taxation had been conferred upon the provinces.

WHAT IS MR. DREW AFRAID OF?

IT is evident that when the Dominion-provincial conference is resumed at Ottawa next Monday, there will be several of the provincial premiers who do not agree in detail with the Dominion proposals of last August. With most of them, however, the range of disagreement will not rule out a workable compromise.

But there is one among them, Premier Drew of Ontario, who professes, and doubtless will continue to profess, to see the direst of perils to this nation if the Dominion should obtain the exclusive possession of the direct taxes. As already stated in these columns, Mr. Drew foresees centralization of power, the displacement of our federal by a unitary system of government, and sooner or later the triumph of one or other form of despotism. This phase of Mr. Drew's argument has already been discussed.

But Mr. Drew does not stop there. Freedom apart, he perceives hazards too desperate to be risked in the yielding up by the provinces of their direct taxes. Note this cryptic passage in the Ontario proposals:

"Federation was made possible in Canada only by the assurance that within its range of legislative competence each provincial legislature would be fully responsible for policy and answerable to its own electorate for the preservation of certain traditional rights and privileges which those provinces were not willing to submit to the overriding authority of a government and parliament in which their own representation would in each instance constitute a minority. The division of legislative competence was made rigid in many fields in order to secure traditional rights from the possibility of usurpation of power by

any Dominion government and parliament no matter what its political complexion might be."

* * *

Since no change in the constitution is involved in the Dominion proposals, this passage might be dismissed as mere rodomontade. But Mr. Drew's elaboration of the point in an address to the Empire Club of Toronto, on January 8, puts a different complexion upon it:

"But it would be well to remember that the four million people of Ontario are a minority within Confederation. We have minority rights to protect which are just as important to us as are the minority rights of other parts of Canada. Remembering that the provincial governments have the exclusive constitutional jurisdiction over education, property and civil rights, the administration of justice, most of the other things that affect our personal daily municipal affairs, the development of our resources, and lives, I can state very emphatically that the government of Ontario has no intention of abandoning its minority rights and powers in those extremely important fields of legislation to a central authority which might, at some time, possess a majority wholly unsympathetic to our way of life."

And the *Globe and Mail*, in full-hearted agreement, foreshadowed the Canadian constitutional millenium under the Drew dispensation (January 9) in these terms:

"The council of foreign ministers, permanent machinery of the great powers, is the most exact

example of the machinery which the Ontario government proposes."

All too evident in these declarations is the sense of fear, of distrust of Canada. What manner of nation would it be that could function with its component parts dealing with each other in the fashion of the council of foreign ministers? They would, obviously, be each of them sovereign states in their own right.

* * *

What Mr. Drew is now offering is a hyphenated, a qualified Canadianism—an Ontario-Canadian, a Quebec-Canadian and so on. It is a case of so far but no further. It is to be a strictly limited membership.

Explicit in his reservations, he has been much less so with respect to the reasons back of them. The provincial rights argument will not wash. No

one of substance today or in the past has advocated the invasion of provincial minority rights. The taxation argument, obviously, offers no explanation.

Perhaps Mr. Drew will make it clear. Why this distrust of the rest of us? What is it which evokes these fears? If the greatest of the provinces is to set itself apart, to half-withdraw from the union, how is our unity to be maintained?

Mark the contrast between 1867 and 1946. In introducing the Confederation resolutions at Quebec in 1865, Sir John A. Macdonald proclaimed the goal: "We wish to be a great people; we wish to be a great nationality, commanding the respect of the world, able to defend ourselves against all opponents, and to defend those institutions we prize."

A great people, a great nationality. Can it be that we are losing the vision?

IT WON'T WORK

A key proposition in Premier Drew's plan for the settlement of Dominion-provincial relations is his proposal for the establishment of a permanent co-ordinating committee, composed of the Prime Minister of Canada and the premiers of the nine provinces. The significant feature of the proposal is Premier Drew's purpose to clothe this Premier's committee with certain important executive functions. He wants this committee among other things to determine from the information supplied by the Dominion-provincial Economic board the amount of adjustment grants to be paid to the needy provinces, and to recommend the timing of public investment projects. The Economic board which is mentioned is to be made up of technical advisers appointed by the Dominion and provincial governments.

The functions which Mr. Drew

would assign to the Premier's committee are indeed definite and important. To our present structure of government, federal and provincial, Mr. Drew would add a third governmental body—one which is not directly responsible to any specific electorate and has not any fiscal competence of its own. The federal system, which is already complex enough, would have yet another instrument of executive power—a sort of delegate committee.

* * *

There is much to be said for a continuing premier's committee for the discussion of intergovernmental matters and to act as a channel and clearing house of information. But Mr. Drew's proposal goes much further. The Sirois commission recommended the establishment of a finance commission to review periodically the fis-

cal need of the provinces. It is important to note that this commission was to be an independent body appointed by the Dominion, and to have power only to advise. Action on this advice was to rest with the Dominion in accordance with its responsibilities to the nation as a whole. Premier Drew would invest the executive power with the power to act or not to act in a premier's committee.

Some of the implications of Mr. Drew's scheme deserve examination. He proposes that each of the provinces contribute 10 per cent of its collections from corporation taxes, personal income taxes and succession duties to a fund which would be divided among the provinces in the form of adjustment grants on the basis of fiscal need determined by the Premier's Committee. Suppose that the 10 per cent fund was not large enough to meet the "fiscal need" of some provinces for the maintenance of a desirable level of essential services. What then?

Under such circumstances it might be desirable and necessary to raise the 10 per cent contribution. The money, however, would have to come largely from taxes collected by the provincial government of Ontario. This being so the Premier of Ontario on the Committee is bound to have a veto on any action of this kind. Thus, one provincial premier would be in a position to veto measures that are of national concern—namely the maintenance of a minimum level of essential services in the country as a whole simply by refusing to introduce the necessary tax legislation in his own legislature. If some redistribution of revenues is desirable in the national interest, the responsibility must belong to the federal government which alone through the Canadian Parliament can answer to the nation.

* * *

Furthermore, the Premier's committee, in determining the fiscal need

of any province is bound to look closely into the whole financial policy of that province, particularly if there is disagreement. Also since both the Dominion and the provinces, under Mr. Drew's scheme, are to levy taxes on personal income and corporations, the federal tax rates are sure to effect the provincial budgetary position and hence the fiscal need. This would inevitably lead the Premier's Committee to scrutinize Dominion tax policy as well. Therefore, instead of each level of government determining its own financial programme in accordance with its direct responsibility to its own electorate, the entire matter would become tied up in a Premier's committee which in nine cases of ten could be expected not to agree; and which as such is responsible to no one. The efficient management of our nation's affairs in this cumbersome way is a practical impossibility.

* * *

Turning to public investment, Premier Drew says in his submission: "The timing of public works and other activities calling for public investment could be brought about just as effectively upon the advice of the above (Economic) board and (Premier's) committee without delegating to the Dominion government the responsibility for extremely important decisions within the sphere of exclusive provincial jurisdiction." In the first place this assertion is inconsistent with Mr. Drew's other proposal that the Dominion should take over the sole responsibility for relief to unemployment. While advocating this he would at the same time tie the Dominion's hands with respect to one of the important methods for relieving unemployment by making federal action dependent upon the decisions of the Premier's committee.

Mr. Drew, in effect, wants the time at which Dominion money is to be

spent on provincial works to be determined not by the Dominion but mainly by the provinces through decisions reached in the Premier's committee. Aside from the utter impropriety of this manner of spending Dominion money, the basic assumptions of this proposal are entirely unwarranted, Mr. Drew says; "It need hardly be said that the conference can only proceed on the assumption that each government will be actuated in its decision by an equally impartial approach to the solution of our combined problems.

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Even if this is accepted for the sake of argument, Mr. Drew's statement that "It must be presumed that every government would find the figures equally convincing at the same time" is surely unrealistic. One need only look at the recent submission of the Government of Saskatchewan outlining its views on public works policy to see the lack of reality in Mr. Drew's assumption. Considering the differing political complexions of the vari-

ous provincial administration and the wide differences in regional circumstances the attainment of a uniform conviction "at the same time" would be a miracle and not a likelihood. For this important matter of adjusting programmes of desirable public improvements to employment needs, Mr. Drew would establish a system in which stalemate and disagreement are inherent.

Mr. Drew's proposal to give important executive functions to the Premier's committee would insert a third centre of governmental power into fabric of Dominion-provincial relations. With such functions it would not be an instrument of efficient co-operation but an instrument of deadlock. What is needed is not another governmental body. What is needed is clear recognition of the national responsibilities of the federal government and a practical arrangement whereby the provinces can discharge adequately their proper duties free of outside supervision.

MR. BRACKEN AND THE DOMINION-PROVINCIAL PROBLEM

MR. Bracken's interest in the problem of Dominion-provincial relations dates from the depression of the 1930's. He was among those whose insistent presentation of the case for a reconsideration of the financial relations of the two jurisdictions led to the appointment in 1937 of the Rowell-Sirois commission.

When the Sirois report was announced, Mr. Bracken approved it and asked for its early adoption. Following correspondence with Mr. King, a Dominion-provincial conference was called in January, 1941, to consider it.

Mr. Bracken made a major submission to the conference in support of the

report. The commission's main recommendation, he said, (page 29 of conference hansard) "is that the provinces should cease to use the following forms of taxation: personal income taxes, taxes on corporations or corporate income which would not be imposed on individuals or partnerships; and succession duties." This recommendation, he said, should be adopted not only as a war measure but (page 22) "as a peace time necessity."

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Failure to do so, he believed, would encourage the drift towards "disunity," "disharmony," "friction" and

the "balkanization of the nine provinces and five economic areas of the Dominion." If not checked, this drift would in the end, "shake the very foundations of the confederation," and "seriously weaken, if it does not destroy, the nations our fathers built."

What could be said against this recommendation. Apparently, Mr. Bracken believed the only counterpoint to be an appeal to the constitution by some of the provinces. He dealt with this constitutional argument (page 25) as follows: "No doubt it could be argued that the right to impose these taxes is a provincial function and a part of provincial autonomy. But provincial governments do not tax for the mere sake of taxing; they tax in order to get the revenue with which to pay the cost of discharging provincial functions of government. If, however, in lieu of these taxes the provinces are relieved of certain costly responsibilities and at the same time are given an adequate alternative source of revenue—one which is not given or withheld at the will of the federal government, but is established by law in accordance with a certain formula—then the alleged loss of autonomy arising from the transfer of these taxes is but a technical and not a real loss."

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Mr. Bracken dismissed the constitutional argument as worthless.

He then proceeded to make his main point for the tax transfer.

Unless the tax transfer was made there could be no escape from a tax structure whose iniquities were unbearable. At the time of Confederation only indirect taxes were in use. The Dominion took these taxes and later on had always endeavored to be fair to the provinces and either abstain from direct taxes (as with succession duties up to 1942) or impose them at a low enough level to permit the provinces to remain in the field.

The fact that the provinces used these taxes, plus the unwillingness of the Dominion to embarrass them, had forced the Dominion to rely unduly for revenue upon indirect taxation. This had resulted in an ill-balanced, "irrational" tax structure. Direct taxes were, "precisely the kind of taxation from which should be derived most of the revenues of the Dominion government."

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Indirect taxation which ignores the capacity to pay, bore heavily upon all consumers, upon farmers and particularly upon the low income group which is by far the largest in the population. "It does not help a man," said Mr. Bracken (page 32), "that he lives in a wealthy province in which income tax rates are low. Indeed, it is because the provinces have the right to impose income and inheritance taxes and because the Dominion respects that right by imposing as little income tax as possible and no inheritance tax, that such a poor man, or farmer, living in a wealthy province has to pay, indirectly though it be, so much sales taxes, customs taxes, and other indirect taxes to the Dominion government. To such a man, a low rate of income tax is of little significance, because the tax seldom reaches him; but the high indirect taxes imposed by the present taxation scheme do reach him. And yet there can be no relief under the present system for such a person, by provincial measures, because the provinces do not control the taxes which are unduly burdening him. Let us then, as provinces, clearly understand that until the Dominion is given the sole power to impose these direct and progressive taxes . . . the Dominion cannot lighten the burden on the people of low incomes without invading the provincial fields for alternative revenues to the point of serious embarrassment to provincial finances."

In the wealthy provinces direct taxes were lower than in the less wealthy provinces. Thus the wealthy of the wealthy provinces," have a relative sanctuary from provincial taxation."

Our system of taxation, said Mr. Bracken, would appear to have been based upon the biblical statement: "For he, that hath, to him shall be given; and he that hath not, from him shall be taken away that which he hath."

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Dominion revenue was needed to service the national debt. But under the prevailing system—unless the Dominion obtained exclusive posses-

sion of the direct taxes—this would involve high indirect taxation; taxing the poor for the benefit of the rich. "We can never build up a sound system of public finance" (page 33), "in Canada by taxing the low income groups for the benefit of the high income groups. Yet that has been the result of the manner in which the revenues and functions of government have been divided between the Dominion and the provinces by the interpretations given in practice to the taxation sections of the Canadian constitution."

When the failure of the conference was evident, Mr. Bracken (page 86) declared that he believed in this solution. "I did so before and I do now and I expect to continue doing so."

MR. BRACKEN'S ATTITUDE CONTINUED

FOLLOWING the failure of the Dominion-provincial conference in January, 1941, Mr. Bracken returned home to launch a crusade for the implementation of the Sirois report, "or its equivalent."

On January 27, 1941, he delivered a radio address in which he declared that, "it was the premier of Ontario who led in the obstruction of the plan." He referred to Ontario as the chief beneficiary of Confederation. In the interest of the future of Canada," he said, "it seems to us that the Dominion has no reasonable choice other than to carry out its own expressed views and to implement the main recommendation of the report." This recommendation, on Mr. Bracken's own statement, was the transfer of the direct taxes to Ottawa and at the present Dominion-provincial conference this is precisely what the Dominion is endeavoring to do. Not to act, Mr. Bracken pro-

ceeded, would be a "staggering" blow to Confederation."

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"Can we suppose," he continued, "that by balkanizing this country . . . that we would be adding to Canadian wealth or Canadian unity or making Canada a greater country than it has been in the past? The only way in which we will ever have a fair division of the tax burden in this country is by giving the Dominion government the sole right to impose direct taxation."

In order that he might better pursue this important goal, Mr. Bracken, in November 1940, had formed a coalition government. The purposes in view were then stated as: (1) the prosecution of the war; (2) the improvement of western agriculture; and (3) the implementation of the Sirois report.

To abridge the record, a year later, on January 21, 1942, Mr. Bracken was

on the same line. In an address to the Kiwanis Club of Winnipeg, he said:

"The recommendations of the commission were favorable to us. The remedies would have accomplished not only the removal of the obvious inequities but would have provided the greatest step towards national unity this country has ever known. . . . That desirable end for the moment has been denied us. But as long as we have the courage of free men, the recommendations or their equivalent must continue to be our goal. . . . We must not fail to keep these major questions before those who have jurisdiction over them and at a suitable opportunity justice must be demanded and expected at their hands."

There was one more sounding of the trumpet . . . at Gladstone, Manitoba, on November 6, 1942. Mr. Bracken renewed his appeal although noticeably in less robust terms.

At the Conservative convention in the following month, in the speech of acceptance, there is but a trace of the old Bracken.

Mr. Bracken emerged from silence on this question briefly in August, 1944. The Family Allowance Act had been enacted at Ottawa. Mr. Drew, now premier of Ontario, had attacked it on grounds of constitutionality and Ontario interest. Mr. Drew held that it invaded the provincial field of social services and that Ontario would receive in benefits much less than would be paid by Ontario residents in the taxes necessary to finance the plan. Here was the issue of a common standard of social service. Here, indeed, was the "drift" towards disunity and balkanization which Mr. Bracken had so clearly foreseen.

Interviewed at Brandon on August 10, 1944, Mr. Bracken found nothing surprising in Mr. Drew's attitude. "It is a very natural reaction on the part of the province of Ontario," he said. He hoped the matter would not become the subject of small controversy.

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Again on June 7, 1945, at Montreal, in the general election campaign, Mr. Bracken re-emerged from silence on this issue to say:

"I am a firm believer in provincial autonomy. It was as a believer in provincial autonomy that I fought without avail against Mr. King and his provincial Liberal henchmen for a new deal in Dominion-provincial relations. I want to see the nine provinces continue to discharge their constitutional functions and to develop the community life in their respective areas and I want to see that they are financially equipped to do so. Some of them are not so equipped now. . . . We stand for decentralization rather than centralization."

Meantime the objectives of Mr. Bracken, the Conservative leader, had changed markedly from those of Mr. Bracken, the Progressive-Liberal. The order of priority had become: (1) win the war and (2) orderly progress and plenty for all. There were variations, to be sure. Always the war came first, but the second priority was changeable. On occasion it was "work for all at fair pay" or "conservation of our natural resources." Never was it the implementation of the commission's recommendations "or their equivalent." The great crusade had ended.

MR. BRACKEN'S POSITION CONSIDERED

IT is surely one of the striking anomalies of Canadian politics that, on the eve of another Dominion-provincial conference, it is necessary to ask this question. It is anomalous on two counts. Mr. Bracken is the leader of the official opposition in the Canadian parliament. The problem which must be solved by the conference is not a "government" problem, or a "Liberal" problem or a "provincial" problem. It is a national problem and the most serious internal problem of our nation.

This being so, it is imperative for Canadians to know where the leaders of all political parties stand. They know Mr. King's position. They are aware of the proposals the Canadian Government made to the conference last August. They know Mr. Coldwell's position. Yet from Mr. Bracken they have had only silence. But this is an issue on which Mr. Bracken cannot remain silent. That he should seek to do so is the second anomaly for no Canadian worked harder to obtain a solution to the vexing problems of Dominion-provincial relations than Mr. Bracken before he became leader of the Conservative party.

The position taken by Mr. Bracken at the 1941 conference has already been summarized. No one was better informed, or had a surer grasp of the essentials of our problem than Mr. Bracken. His presentation to the Rowell-Sirois commission was a superlative examination of every aspect of the case. That submission was the distillation of Mr. Bracken's desperate experiences as premier of Manitoba during the worst depression in history.

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In this presentation, Mr. Bracken took the national view. Nowhere in that brief can be found any championship of "provincial rights." Mr. Brack-

en argued over and over for the amendment of the Canadian constitution and in doing so was willing, even eager, to have the Dominion take over certain so-called provincial responsibilities. Specifically he urged that the Dominion be given exclusive power to levy inheritance taxes. He insisted that the constitution be so amended so that every Canadian, regardless of his place or residence, could be provided with a minimum standard of service.

When the Rowell-Sirois commission found a formula for meeting the needs of Canadian citizens without amending the constitution, Mr. Bracken became the foremost protagonist of these proposals. In the controversy that ensued, one point became important—the transfer to Ottawa of certain direct taxes. Mr. Bracken regarded this as the chief recommendation of the report and became its ardent champion.

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The intransigent opposition of three provinces wrecked the conference of 1941. Mr. Bracken, however, continued to press for the adoption of the commission report. In Manitoba he had already formed his coalition government—to win the war, improve western agriculture and implement the Sirois report.

Last August a further attempt was made to solve the problem. The Dominion proposed that the provinces forego these direct taxes for a period of three years in return for substantial subsidies. Premier Drew has branded these proposals as a fatal blow to our federal system which would lead to centralization and despotism. Mr. Bracken answered this argument completely in 1941.

He demonstrated that for the "wealthy" provinces to deny these taxes to Ottawa would be to shelter

the wealthier groups within these provinces against the storm. It would be class discrimination of the worst sort. With dual taxation, the combined rate would be much lower in the wealthy provinces than in the poorer provinces. A wealthy province, because of its wealth, could get all the money required to operate at very low rates. But a poor province, because it was poor, would have to levy confiscatory rates in order to make ends meet.

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By transferring these direct taxes to the Dominion all Canadians would pay the same rate. The Dominion, as Mr. Bracken pointed out in 1941, now has a greatly increased national debt. The arguments he used on behalf of the Dominion in 1941, have even greater force today when the national debt is near the \$16 billions mark.

Failure in 1941 did not discourage Mr. Bracken. He pledged himself to make the implementation of the Rowell-Sirois report a life crusade. "As long as we have the courage of free

men," he said, "the recommendations or their equivalent must continue to be our goal." In 1941, Mr. Bracken spoke as the evangel of the new order in Canada. With the poet he might have said:

"Bring me my bow of burning gold,
Bring me my arrows of desire.
I will not cease from mental fight,
Nor shall my sword sleep in my hand
Till we have built Jerusalem
In England's green and pleasant land."

The bow is there as always. So too, we sincerely believe, are the arrows of desire. But since Mr. Bracken became leader of the Conservative party the sword has slept in his hand while Jerusalem remains unbuilt and apparently forgotten, along with the goal which was to have been striven for as long as free men were imbued with courage.

Where, then, does Mr. Bracken stand today? The time is late, but the call for a new Jerusalem is more audible, and more insistent today than ever before, if only Mr. Bracken would hear it.

ON THE EVE OF THE JANUARY MEETING

BASIC to all our post-war difficulties—the father of all problems—is the question of re-defining the fields of taxation as between the Dominion and the provinces. Unless a satisfactory agreement is reached, neither the Dominion or the provinces will be able to function effectively in the critical years ahead. If evidence on this score is necessary it will be found in the breakdown of the 1930's, which brought on the Rowell-Sirois inquiry, and in the last four years of the war when, under the compulsion of circumstances, a temporary solution was found in the Dominion-provincial taxation agreements, which

enabled this country to sustain the war effort. These agreements are soon to expire. That is the reason why the present conference was called.

On every hand the necessity for agreement is conceded. Yet the difficulties are attested by the failure to adopt the Rowell-Sirois recommendations in 1941 and by the sharp conflicts of view which already over-shadow the present conference.

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The Dominion now faces a budget of from \$1,500 to \$1,800 millions per year—a three-fold increase over 1939. In addition, the Dominion must find

money for large external loans to re-establish our foreign trade. There must, also, be outlays for public works and developmental projects. The possibility of unemployment cannot be ignored.

The provinces, for their part, are emerging from the low-spending period of the war. As a generality it may be said of them that they will require greater revenues to meet rising costs of education, social services and public improvements. But while the need of the provinces is common to all, their ability to meet these greater expenditures is unequal. Because of national policies, the wealth of the nation has accumulated in pools or pockets. Some provinces are more fortunate than others. Ontario, Quebec and British Columbia are more favored than the Prairies and the Maritime provinces.

The crucial question in the present conference is this: How are these increased burdens—Dominion and provincial—to be financed? The power of the Dominion to tax is unlimited: that of the provinces is restricted to direct taxes. Yet the sums to be raised by Ottawa are so great that direct, as against indirect, taxation is the only way in which the load can fairly be spread over all the people.

For the Dominion to rely largely upon indirect taxation—customs and excise duties and sales tax—would cripple the national economy. But if the direct taxes—income, corporation taxes and succession duties—are to be the chief source of Dominion revenue, the provinces must vacate these fields. Otherwise the varying rates of direct taxes which the provinces—because of their unequal wealth—will proceed to impose will make it impossible for the Dominion government to operate. The inequalities of income and corporation taxes as between the provinces, prior to the war, will be recalled by everyone. We believe few will desire to return to a system under

which the combined Dominion-provincial taxes in some provinces were among the lowest in the world and in others among the highest.

These, in brief, are the reasons why no government can plan for the future until this question is resolved.

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The task of the present conference, already six months underway, is to find a solution that will work. The proposals of the Dominion government, while open to criticism on various grounds, meet the test. The Dominion proposes to continue, with modifications, the taxation system which worked so successfully in the war and which, with respect to this phase, was recommended by the Rowell-Sirois commission. The provinces would vacate these tax fields for three years in favor of the Dominion. In return, the Dominion would pay subsidies adequate for the needs of each of the provinces.

In the federal political field, this solution has been endorsed in principle by the C.C.F. The national Conservative party, however, has been silent. There doubtless are times in public affairs when it is the part of wisdom to be silent. The phrase “masterly inactivity” is not without reputation in political history. This, however, is not such a time. The west will be slow to believe that Mr. Bracken, the foremost champion of this solution prior to 1942, has changed his views. They will await a pronouncement from him with the deepest interest.

Among the provinces, there are plainly differences of view as to the merits of the Dominion proposals. But, so far as the public record goes, these differences, with one exception, do not appear to be so wide as to exclude agreement.

The exception is Ontario. Mr. Drew's counter proposals of January 6, are fundamentally opposed to those of the Dominion. It is basic in the

Dominion proposals that the direct taxes shall be given exclusively to Ottawa. It is basic in the Ontario proposals that the provinces shall retain these taxes. In support of Ontario's case, Mr. Drew argues that the surrender of these taxes by the provinces would mean the end of our federal system, the centralization of power at Ottawa and, in the end, despotism. No doubt Mr. Drew is sincere. His argument, however, will not bear examination. The goblins which haunt him are imaginary, not real.

He does, however, acknowledge the inequality of the provinces—a forward step—and his proposals attempt to meet it. But his council of premiers and the pool of money which they would distribute among the less-favored provinces, are impracticable. They would aggravate, not lessen, the difficulties, and the tax structure, which would result would be more unsound than the one that was found to be unbearable prior to 1942.

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This, then, is the problem and these are the solutions now before the public.

It can be said, without exaggeration, of the present conference that in its time and circumstances it is just as important as were the pre-confederation conferences at Charlottetown and Quebec. Indeed, the very nature of the problems is the same. Questions of taxation and of subsidies barred the forward way in 1864. They do so today. And, just as the Fathers of Confederation found a workable compromise in their day and age, to the end that "a great nationality" might be created, so the statesmen of today will be expected to put aside individual preferences to the end that the vision of 1867 may be fulfilled. If they do not do so, the present conference will fail. But the cause cannot fail. This newspaper is persuaded that in the end, and at no long run, the people will not permit the development of this country to be arrested by considerations of narrow provincialism.

THE DOMINION MODIFIES ITS PROPOSALS

WHILE there are no official statements to go on, it is reasonably certain that the Dominion has substantially modified its proposals to the provinces. There has been no change in principle but the modification, as of Wednesday evening, may be said to remove all doubt as to the willingness of six of the nine provinces to enter into a three year agreement with the Dominion. The position of the other three—Ontario, Quebec and British Columbia—continues to be uncertain.

Putting together such unofficial information as is available, the modifi-

cations proposed by the Dominion may be summarized as follows:

The original Dominion proposals of last August, offered the provinces greatly increased subsidies in return for the surrender by the provinces for three years of their income, corporation and inheritance tax. The proposed subsidies were to be calculated in this way:

The Dominion would pay to the provinces \$12 per capita on the basis of the national income of 1941. As the national income increased, the per capita subsidy would increase in exact proportion. But the subsidy would

never fall below \$12 per capita regardless of the national income.

* * *

Projecting the formula, it would have worked in this way:

Year	National Income (Millions)	Per Capita Subsidy
1941	\$ 8,361	\$12.00
1942	10,268	15.00
1943	11,137	16.00
1944	11,727	16.80
1945	11,300	16.20

Thus, had the plan been in operation since 1941, the provinces would have been receiving higher subsidies than the basis \$12 per capita but as war prosperity is not deemed likely to continue, the provinces have been inclined to calculate the Dominion's offer at the basic rate.

The Dominion has now proposed to make 1942 the basic year. The subsidy would increase above the \$15 per capita if and as the national income advanced above the 1942 total. But, regardless of national income, it would never be less than the \$15. This change, as a reference to the foregoing figures shows, does not add a dollar to the present cost of the Dominion plan. But if the national income were to drop sharply, the increase in cost to Ottawa over the 1941 basic rate would be about \$36 millions. As the population grows, the loss would be greater.

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There are, in addition two other modifications.

Prince Edward Island, it is believed, has been offered a floor subsidy of \$2 millions a year. If the national income formula ever yields a greater subsidy to P.E.I. then the province would get it. But instead of a base of \$16 per head or \$1,520,000 the Island is now offered \$2 millions. Since all estimates contemplate a loss of population by the Island, this change may be

assumed to be highly acceptable to the local government.

British Columbia is regarded as holding a special position because the province imposed extremely high income, corporation and inheritance taxes prior to 1941, when the tax agreement with Ottawa was entered into.

To a greater extent than any other province British Columbia is being asked to grant to Ottawa not a theoretical source of large revenues but an actual source. To meet this special circumstance, an alternative proposal is said to have been worked out. Any province may elect to take, instead of \$15 per capita based on the 1942 national income, a subsidy equal to 150 per cent of the amount paid by the Dominion under its particular taxation agreement. In 1941, as a war measure, all the provinces turned over their taxes to Ottawa and in return Ottawa paid compensation equal to the yield in each province. Thus British Columbia, relatively, got more for the surrender than the others. With a quarter of Ontario's population, B.C. got \$12 as against \$29 millions for Ontario.

Only British Columbia could obtain more money from Ottawa on this alternative plan. British Columbia would get a basic subsidy of \$18 millions per year or \$19.40 per capita, as against a little better than \$16 per capita for the rest. But B.C. under the alternative plan would not get more than \$18 millions until the national income rose to the point where all the provinces would get more.

The reaction of B.C.'s delegates to this offer is unclear. It would seem likely to be unfavorable. British Columbia, by calculating the yield of its 1941 rates of taxation on current business in that province, estimates that the yield would be closer to \$21 per capita, perhaps higher. And Mr. Hart in his statement to the conference last November, specifically de-

clared that he would never yield these taxes unless guaranteed a minimum of the revenue they would produce on the year to year business done in the province. As business in B.C. expanded, the subsidy must rise. The Hart formula would be hitched to B.C.'s taxable income and not to the national income.

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Summing up these changes, it is clear that whereas the original Dominion proposals of \$12 per capita would have cost Ottawa not less than \$138 millions per year, the new proposals increase the minimum cost to \$180 millions per year. The difference is the increase in the per capita rate from \$12 to \$15 plus the special offers to the two provinces.

In the immediate sense, however, the increase in cost is very small. Under the original proposals, Ottawa would have paid \$16.80 per capita in 1944, or some \$206,800,000. It would have been only slightly less in 1945. The increase as a result of the modification is only the special sums offered to the two provinces. The estimate is that the modified proposals would cost Ottawa \$197 millions in 1946.

That is the picture so far as the national treasury is concerned.

As for the provinces, a further change is reported to be in store. In-

stead of calculating the subsidies on each year's national income, it is believed that the Dominion is prepared to make the calculation on a three year basis. This change would strengthen an obvious weak spot in the original proposals.

To begin with the national income can only be estimated for the current year. Any given year must be well passed before the statistics on income can be completed. Moreover, the national income is liable to sharp variations. It may fall rapidly, thus cutting down the subsidy payments at the time when the need of the provinces for money would be greatest. Bad times would mean lower provincial revenues; good times higher.

It is now proposed to estimate the current year's national income by a projection of the three preceding years. That is, in arriving at an estimate of the national income for 1946, the income of 1943, 1944 and 1945 would simply be projected one year forward. This would mean much greater stability in the amount paid in subsidies and would aid the provinces in planning ahead. It would mean that the war boom would be reflected in post-war calculations until 1948, operating to mitigate any sharp fall in income which may occur.

But as to the effect of these changes, beyond the certainty that six provinces will be favorable, nothing is sure.

CANADA'S GREATEST PROBLEM

WHEN the Dominion-provincial conference adjourned on February 1, the official statement declared that, "the Dominion revised its proposals of last August in some important respects." According to the statement, these revised proposals were discussed at length and the conference then adjourned until April 25 to allow time for further consideration.

It is unfortunate that the revised proposals were not made public so that the people as well as the heads of governments represented at the conference could consider them. There is no question today which affects every phase of national life more directly than this matter of Dominion-provincial relations. The level of personal income and corporation and

other taxes, the development of social services, of public investment policies, the capacities of our industries to compete in foreign markets—all are involved in the settlement to be reached. The failure of the conference could not be other than a national misfortune.

Until a settlement is reached, no province and certainly not the Dominion, can proceed intelligently to plan either for the present or the future. Every jurisdiction is compelled to mark time until the result is known. The Dominion government, speaking through Mr. Ilsley, has made this clear time and again. The Manitoba government in the speech from the throne a day or two ago spoke in similar terms. Although using more guarded language, the speech from the throne opening the current session of Quebec legislature on February 13 affirmed the same conclusion.

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Although the text of the revised Dominion proposals is not public, there has been a great deal of informed discussion of a semi-official character. Ottawa correspondence in such newspapers as the *Globe and Mail* of Toronto, the *Gazette* of Montreal, the *Vancouver Sun*, the *Halifax Chronicle* and, more particularly, the *Financial Post* (not to mention this newspaper) leave little doubt as to the main outline of the proposition which the provinces are now considering. As an aid to the general public in sizing up the present position a careful summary of the information thus available has been made and is presented in an adjoining column. It is by no means official but we believe that the event will show that it is very close to the mark.

Careful study of this summary will reveal a number of interesting facts. The Dominion has greatly increased the price it is prepared to pay to

the provinces for the surrender of their income, corporation and inheritance taxes. There are objectionable features here which have already been discussed. In brief, these proposals ignore the basic finding of the Rowell-Sirois Commission, in favor of adjustment grants by the Dominion to the provinces on the basis of fiscal need, of actual need. In the sense in which this phrase was used in the Commission's report, the proposed settlement is unsatisfactory. The less fortunate provinces will not be placed, relatively, in as favorable a position as the wealthier of them. The old disparities will be continued and therefore the settlement can have small hope of permanence. The troubles which afflicted us in the past will inevitably recur in the future.

Against this, it may be said that the proposed agreement is to run for only three years and, therefore, is a temporary arrangement in every sense of the word. It is evident, moreover, that the new proposals represent, broadly, the best settlement that can presently be obtained. And, although discriminated against in the larger sense, the less fortunate provinces will be able to face the immediate future.

Manitoba, for example, stands to receive an annual Dominion grant of \$11.8 millions, against \$8 millions under the 1941 tax agreements. Saskatchewan, on the same terms, gains from \$8.3 to \$13.7 millions. The Maritime Provinces, on average, nearly double their annual receipts from the Dominion, from \$10.1 to \$19.4 millions.

But the taxpayers also stand to gain substantially. The Dominion government, apparently, has declared in the revised proposals that if an agreement along the desired lines is reached and duplication of taxation, by the provinces and the Dominion, is avoided, further reductions in the personal income tax will be made. Still more significant, the corporation tax will

be cut and reduction, here, will be so made as to lessen the element of double taxation. In this sense, double taxation means the taxing of corporation income in the hands of the corporation and again in the hands of the shareholder who receives interest or dividends.

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There can be relatively few people in this country who do not desire lower taxation. To this vast majority, the Dominion proposals offer a way to achieve tax reductions without weakening the national credit. Balanced budgets are essential at the earliest possible date. But, obviously, a lower rate of taxation if spread over the whole of the country will yield the needed revenue much more efficiently and fairly than duplicatory Dominion and provincial taxation. Because of the high rates which would be neces-

sary—and which experience proved to be necessary prior to 1941—in the less fortunate provinces, an equal spreading of the burden would be impossible. It is only possible if the Dominion possesses exclusive power to levy these taxes. This way, therefore, lie the great advantages of lower income and corporation taxes which, in turn, will be beneficial to all business in this country.

On other aspects of the revised proposals much could be written. The terms of the Dominion's revised offer on public investment and care of the unemployed have been improved. This is true, as well, of the aid to be given for social services.

As the time for the resumption of the negotiations draws nearer, the public who pay the costs and reap the advantages, should make their wishes known in no uncertain terms.

THE NEW DOMINION OFFER

THE following is a summary, compiled from unofficial sources, of the revised proposals submitted by the Dominion government at the recent sessions of the Dominion-provincial conference.

It is assumed that the reader has a general knowledge of the original proposals put forward last August.

With regard to Dominion grants to the provinces, the Dominion has now offered a new plan. Provided the provinces will surrender to the Dominion for a period of three years their income, corporation and inheritance

taxes, the Dominion (for a similar period) will pay an increased per capita grant under a formula by which the grant will be related to national income. As an alternative, the Dominion will pay to any province a sum not less than 150 per cent of the payments under the tax agreement of 1941 or a cash minimum of \$2 millions per annum. The tax agreement receipts would not include the Dominion guarantee with respect to the gasoline tax.

These proposals are extremely complex. To make the result clear, the minimum payment in each case is shown in the following table:

	Tax agreement receipts plus sta- tutory subsidies and succession duty collections	Irreducible minimum payments		Amounts which would be paid in 1946 on revised basis
		Original proposals	Revised proposals	
		(In millions of dollars)		
P.E.I.....	\$ 1.1	\$ 1.1	\$ 2.	\$ 2.
N.S.....	4.2	6.9	8.9	9.9
N.B.....	4.8	5.5	7.	7.5
Que.....	32.1	40.	50.9	56.8
Ont.....	44.	45.5	38.3	64.2
Man.....	8.	8.8	10.9	11.8
Sask.....	8.3	10.8	12.7	13.7
Alta.....	8.2	9.6	11.6	13.2
B.C.....	14.2	9.8	18.1	18.1
Total	\$124.9	\$138.0	\$180.4	\$197.2

It will be seen that every province except Prince Edward Island and British Columbia would take the per capita grant tied to national income. Prince Edward Island would take the flat payment of \$2 millions because it would receive most in that way. Likewise British Columbia would take 150 per cent of the 1941 tax agreement, plus succession duty collections, because that would yield the higher return to the province.

The Dominion has gone some distance toward recognizing the special claims of the provinces to such tax sources as gasoline, amusements, etc. The Dominion gives a pledge not to enter the fields of real estate or automobile licensing. And the Dominion would agree not to increase the present taxes on gasoline, amusements, pari-mutuel betting, telephone and telegraph messages, and electricity, provided that in a national emergency no such undertaking would apply.

The Dominion made it known that in connection with the social services already or soon to be launched, it proposes to impose a special tax. The amount of the tax however, was not stated. The Dominion also pledged itself to reduce the income and corporation taxes if an agreement went through.

The Dominion betters its original offer on public investment by propos-

ing to take on a larger share of the cost of planning provincial and municipal public works, provided such works are proceeded with in keeping with a nation-wide time table. The Dominion also is now ready to modify the terms on which it will contribute to the cost of provincial and municipal undertakings. Depending upon the need, the Dominion would increase its percentage share. If there was serious unemployment, the percentage would rise; in the reverse, it would fall.

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There are changes in the proposals on health, the care of the blind, hospital construction, old age pensions and unemployment assistance.

The detail here is more sketchy. More attractive terms are offered on grants to be paid to the province for provincial studies on health measures and health insurance. On health insurance it is now clear that the provinces would be free to adopt it or not, as they please. Those who do so may also proceed in convenient stages.

The Dominion is also prepared to step up the grants for general health, tuberculosis, mental institutions, venereal disease, professional training and public health research.

The Dominion is prepared to pay half the cost of pensions to the blind at \$30 per month to begin at age 21.

Additional aid will also be forthcoming on hospital construction.

As to old age pensions, the significant change is that the provinces need not take on pensions to needy persons

between the ages of 65 and 69 unless they desire to do so.

The Dominion terms on assistance to the provinces for unemployed employables are also improved.

THE CASE OF THE TAXPAYERS RESTATED

A basic point in the Dominion-provincial negotiations now underway is whether this country is to have one set or two sets of income, corporation and inheritance taxes to the Dominion and also to the particular province in which he resides. Is a taxpayer to pay these taxes? Or is there to be only one payment and that one to the Dominion treasury? To collect two taxes by a single collection agency does not meet the point. The only way in which a single set of taxes can be obtained is if the provinces give up these sources of income and leave the Dominion in sole possession of them.

At this point, it is argued in behalf of the Dominion that only in this way will it be possible to reduce the burden not only of these particular taxes but of all taxation, without endangering national or provincial credit. The provinces, under a single Dominion tax arrangement, would be taken care of by adequate subsidies from Ottawa. And Ottawa could reduce the taxes and still obtain all the money needed for a normal post-war budget.

To many people, the foregoing statement will seem to rest upon a paradox. How can the Dominion reduce taxation and not feel the pinch in revenue? What does it matter if the provinces impose these taxes as well as the Dominion? Does not the taxpayer have to pay either way?

The answers to these questions are important because they contain the core of the case for a single set of the

income, corporation and inheritance taxes. And they can be most readily grasped if the argument is considered under two headings.

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If there are two sets of these taxes, it inevitably follows that there will be wide variations in rates. Some provinces are much wealthier than others. In these relatively low rates will yield sufficient money for provincial purposes. In the less-fortunate, relatively high rates will be necessary. This is not theory. It is fact. It is precisely what happened prior to 1941 when there were two sets of taxes.

With two sets of taxes, the Dominion government in calculating its taxes had to consider the highest of the provincial rates. The Dominion could not apply rates which would be fair in the wealthier provinces, if the result would be confiscation in the less fortunate provinces. The Dominion rates right across the country had to be governed by the highest rates in a particular province, for example, for the Dominion to tax the Canadians living in Ontario and Quebec fairly might well mean that Canadians living in Manitoba, Saskatchewan, Alberta and British Columbia would be intolerably penalized.

The best illustration here is to look at what actually happened. Here are the figures prior to 1939 on personal income tax under the dual taxation system. They are taken from the Rowell-Sirois report, page 158, and cover the combined Dominion, prov-

incial and municipal income taxes payable by married men with no children:

	Gross Income	
	\$3,000	\$10,000
P.E.I.....	\$61.90	\$ 821.20
N.S.....	30.	546.
N.B.....	30.	636.
Que.....	33.	655.20
Ont.....	44.55	778.70
Man.....	77.04	993.28
Sask.....	71.50	1,034.25
Alta.....	65.	1,036.
B.C.....	60.	1,051.

It will be seen that Manitoba and Saskatchewan set the pace for the Dominion in the lower income group and British Columbia in the higher.

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As with the Income tax, so with the other direct taxes. If these taxes are imposed only by the Dominion, all these variations disappear. A Canadian pays the same taxes regardless of the province in which he lives. And it then becomes possible to tax the people in the wealthier provinces fairly without confiscating the incomes of those in the other provinces.

On this phase of the argument, therefore, it can be demonstrated that the taxpayers in the less-fortunate provinces stand to gain by a single set of taxes imposed by the Dominion. But how, it may be asked, can the people of Ontario and Quebec be persuaded to accept such a policy when the result must be to raise their taxes?

Here, the second phase of the argument applies. In practice, only a few of the wealthier people in these two provinces would pay more. The great mass of the people in Ontario and Quebec would pay less. They would do so, not so much in terms of direct taxes as in general taxes payable to the Dominion.

Everybody realizes today that the Dominion now faces a budget of some \$1,500 million per year. That esti-

mate errs on the under-side. The common expectation is that it will be substantially higher.

If the Dominion, because of a dual system of direct taxation is compelled to keep down its rates of income, corporation and inheritance taxation, it will have no alternative but to turn to other and indirect sources of income. National credit must be maintained. Over a period of years, the Dominion must pay its way. Somehow, the national budget must be balanced.

The Dominion, therefore will be driven into indirect taxes such as the sales tax, excise duties of one kind or another, tariffs and the like. These are taxes on essentials of life which all must buy. These are taxes which ignore the principle of ability to pay. All people eat about the same amount of sugar, bread, meat and other foods. All wear clothes and require boots. Indirect taxes of this kind would hit the great majority of the people of Quebec and Ontario just as heavily as they would the people of the other provinces. Only the few in these wealthier provinces would escape. And it is these few who, of all the people of this country, would stand to gain by a return to a dual system of direct taxation.

The application of this argument to the income and inheritance taxes is obvious. Its application to the corporation tax will be equally clear after a little consideration.

During the war, the Dominion earned some \$1,400 millions per year out of these direct taxes. In addition, the Dominion has many other rich sources of revenue. Total tax yields have been as high as \$2,700 millions per annum. Hence, the promise of the Dominion that, if a single system of direct taxation can be achieved, there will be reductions in taxation can be accepted without fear that the national credit will be endangered.

B. C. ASKS FOR MORE

BRITISH Columbia, one of the key provinces in the present Dominion-provincial financial negotiations, has raised its demands upon the federal treasury to an amount which, if it were paid, would compel a complete revision of the Federal Government's present fiscal programme. The amount of the British Columbia demand has not been stated in figures but it has been laid down in binding principle by John Hart, premier and minister of finance. He says that the province will abandon its income tax for a three-year trial period "provided we are compensated by a sum equal to what we would collect if again we imposed similar taxes to what were in force previous to the war tax agreement."

It is impossible for Mr. Hart to say how much money this means. He does not know at the moment what he could collect if he imposed the prewar provincial income tax because the Federal Government has not revealed a breakdown of the income tax it has collected in British Columbia recently. Before he abandoned income taxes Mr. Hart took in \$14.5 millions a year. Since then the population of the province has grown rapidly and its total income has risen. Mr. Hart has hazarded no public guess as to what he could collect now, but it is probably well over \$20 millions and some members of the legislature think it is at least \$25 million.

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At the last Dominion-provincial conference the Dominion, in a secret proposal which has been widely published throughout the country and never denied, offered British Columbia annual grants of \$18 millions. It is clear, therefore, that, Mr. Hart is seeking a heavy increase over the Dominion's last offer.

The need of such an increase—though he has never stated and cannot know the exact figure yet—he has sought to demonstrate in his budget speech. He is budgeting for a deficit of some \$10.5 millions in a total current budget of \$77 millions including \$42 millions of non-capital expenditure. Roughly half of this will be paid by dipping into surpluses accumulated during the war and the other half borrowed. The huge deficit for which Ontario is budgeting indicates that both it and British Columbia are seeking to prove to the Dominion that they must have greatly increased federal grants merely to maintain their current services.

The probable extent of Mr. Hart's requirements can be seen in a simple calculation: On the Dominion's latest plan to give British Columbia \$18 millions a year the province would gain \$3.5 millions over its present federal grants of \$14.5 millions. But as Mr. Hart now has a deficit of \$10.5 millions the federal plan would still leave him short \$7 millions.

If the Dominion were to cover this deficit and raise the B.C. grant from \$18 millions to \$25 millions it would have to make somewhat similar grants to other provinces, even though British Columbia, as explained here before, has a special case for consideration. In short, the Dominion would have to be prepared to increase its recent offer by some 40 percent. As it is now offering to pay all the provinces combined a total of \$197 millions, it would have to increase this to something like \$275 millions, on the basis of present national income. Whether the Dominion is prepared to shoulder such a cost is not known here.

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Apart from the money involved, which cannot be accurately calculated

pending a break-down of federal income tax collections here, Mr. Hart's budget lays down a clear principle which may be stated simply as follows: British Columbia is demanding a settled share of the federal collections within its boundaries, this share to equal what it could collect itself at any time, at its old tax rates. This means that the provincial government is prepared to gamble on the total income of British Columbia's people. If their income goes up the province will get from Ottawa more; if it drops the province must take less. It is an automatic and flexible formula.

If the Dominion is not prepared to make grants equal to this formula Mr. Hart says "the alternative to this is that we proceed to collect provincial income and corporation taxes at rates current before the war. Should we be obliged to do this, the Dominion Government, by the terms of the present tax agreement, must reduce their taxes accordingly but not exceeding ten percent on corporation incomes. Consequently our re-entry into these

taxing fields would not mean increased taxes for the taxpayers. Should this step be necessary, we would ask the Dominion Government to collect the taxes on our account so that there would be only one collecting agency."

This is a clear threat to return to dual income taxation if British Columbia cannot get what it wants from the Dominion. It promises the B.C. taxpayers no total increases in income taxes in such an event but it leaves out of consideration, of course, the final effect of this situation on the finances and tax policies of the nation. For, as has been shown here before, if there are to be two income taxes everywhere, the Dominion would have to fix its tax rates at a figure low enough to avoid confiscating incomes altogether in some of the poorer provinces which have always imposed very high provincial rates. There would be a ceiling on Dominion collections and the Dominion, to secure essential revenue, would have to resort to high regressive sales taxes which chiefly strike at the poor.

